

# **Lottery Revenue Projections:**

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**FY2005 (2004-2005)**

**FY2006 (2005-2006)**

**Presented to:**

**The State Funding Board**

**By Robert N. Currey**

**April 26, 2005**

# Content of Presentation

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- **FY05 Actual vs. Estimates**
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# **FY05 Methodology & Estimates**

# FY05 Methodology

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- Analyze revenue streams by game type.
- Develop multiple estimation models for each game type.
- Derive a weighted average estimate (WAE) and an estimated range that were considered “statistically-significant” for each game type.
- Sum WAE and estimated ranges across all game types to derive total revenue estimates for FY2005.
- Forecast total expenses (as percent of revenue).
- Calculate net lottery proceeds & sales per capita.

# FY05 Revenue & NLP Estimates

## (December 14, 2004)

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<b>Estimate:</b>	<b>Net Revenue</b>	<b>Total Expenses (69%)</b>	<b>Net Lottery Proceeds (31%)</b>	<b>Sales Per Capita</b>
<b>Estimated Range:</b>	<b>\$684.9m - \$751.7m</b>	<b>\$472.6m - \$518.7m</b>	<b>\$212.3m - \$233.0m</b>	<b>\$115 - \$126</b>
<b>Weighted Average Estimate:</b>	<b>\$714.9m</b>	<b>\$493.3m</b>	<b>\$221.6m</b>	<b>\$120</b>

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# FY05 Actual vs. Estimates

# FY2005 Net Lottery Revenue Estimates by Game Type (December 14, 2004)

<i>Game Type</i>	<i>Weighted-Average Estimate (WAE)</i>	<i>Estimate Range</i>
<b>1) Instant Games</b>	<b>\$454.8 million</b>	<b>\$444.8m - \$464.2m</b>
<b>2) Cash 3</b>	<b>\$66.8 million</b>	<b>\$66.1m - \$67.4m</b>
<b>3) Powerball</b>	<b>\$164.9 million</b>	<b>\$148.1m - \$189.0m</b>
<b>4) Lotto 5</b>	<b>\$24.4 million</b>	<b>\$21.9m - \$27.1m</b>
<b><i>Sub-Total:</i></b>	<b>\$710.9 million</b>	<b>\$680.9m - \$747.7m</b>
<b>Misc. Income</b>	<b>\$4.0 million</b>	<b>\$4.0 million</b>
<b>FY05 Estimates</b>	<b>\$714.9 million</b>	<b>\$684.9m - \$751.7</b>

# Net Lottery Revenue

## Actual vs. Estimate (FY2005)

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<i>Game Type</i>	<i>WAE</i>	<i>Pro-rated WAE (thru 3/31)</i>	<i>Net Revenue (thru 3/31)</i>	<i>Conclusion</i>
1) Instant Games	\$454.8 million	\$341.10 million	\$396,563,876	116% of P-R Est.
2) Cash 3	\$66.8 million	\$50.10 million	\$53,535,078	107% of P-R Est.
3) Powerball	\$164.9 million	\$123.67 million	\$107,483,833	87% of P-R Est.
4) Lotto 5	\$24.4 million	\$18.3 million	\$15,685,804	86% of P-R Est.
<i>Sub-Total:</i>	\$710.9 million	\$533.17 million	\$573,268,591	107% of P-R Est.
Misc. Income	\$4.0 million	\$3.00 million	\$3,195,632	107% of P-R Est.
<b>FY05 Estimates</b>	<b>\$714.9 million</b>	<b>\$536.17 million</b>	<b>\$576,464,223</b>	<b>107% of P-R Est.</b>



# Net Lottery Revenue

## Actual vs. Estimate (FY2005)

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<i>Game Type</i>	<i>Estimate Range</i>	<i>Pro-rated Range (thru 3/31)</i>	<i>Net Revenue (thru 3/31)</i>	<i>Conclusion</i>
1) Instant Games	\$444.8m - \$464.2m	\$333.6m - \$348.1m	\$396,563,876	Above P-R Range
2) Cash 3	\$66.1m - \$67.4m	\$49.6m - \$50.6m	\$53,535,078	Above P-R Range
3) Powerball	\$148.1m - \$189.0m	\$111.1m - \$141.8m	\$107,483,833	Below P-R Range
4) Lotto 5	\$21.9m - \$27.1m	\$16.4m - \$20.3m	\$15,685,804	Below P-R Range
<b>Sub-Total:</b>	<b>\$680.9m - \$747.7m</b>	<b>\$510.7m - \$560.8m</b>	<b>\$573,268,591</b>	<b>Above P-R Range</b>
Misc. Income	\$4.0 million	\$3.00 million	\$3,195,632	N/A
<b>FY05 Estimates</b>	<b>\$684.9m - \$751.7</b>	<b>\$513.7m - \$563.8m</b>	<b>\$576,464,223</b>	<b>Above P-R Range</b>

# Net Lottery Proceeds

## Actual vs. Estimate (FY2005)

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<i>Estimate Type</i>	<i>WAE</i>	<i>Estimate Range</i>
<b>FY05 Estimate</b>	<b>\$221.6 million</b>	<b>\$212.3m - \$233.0m</b>
<b>Pro-rated FY05 Estimate</b>	<b>\$166.2 million</b>	<b>\$159.2m - \$174.8m</b>
<b>Actual to date</b>	<b>168.3 million</b>	<b>168.3 million</b>
<b><i>Conclusion:</i></b>	<b><i>101.3% of PR Est.</i></b>	<b><i>Within PR Range</i></b>

# Any Revisions to FY05 Estimates?

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- Instant game sales over expectations by 16%.
  - TELC has introduced new games with higher payout ratios.
- Cash 3 sales over expectations by 7%.
- Powerball sales below expectations by (13%).
  - Anticipating another \$150.0 million jackpot that has not occurred yet.
- Lotto 5 sales below expectations by (14%).
  - Very limited data back in December.

# FY05 Conclusion

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- **FY05 Net Lottery Revenue (NLR) estimates turning out conservative.**
- **Net Lottery Proceeds (NLP) coming in as expected.**
- **NLR: 107.5% of pro-rated estimates.**
- **NLP: 101.3% of pro-rated estimates.**
- **Explanation – Instant Games.**
- **Expenses (as of March 31, 2005) were 70.8% of NLR.**
- **Net Lottery Proceeds (as of March 31, 2005) were 29.2% of NLR.**

# FY05 Conclusion

## (April 26, 2005)

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<b>Estimate:</b>	<b>Net Revenue</b>	<b>Total Expenses (70.8%)</b>	<b>Net Lottery Proceeds (29.2%)</b>	<b>Sales Per Capita</b>
<b>Estimated Range:</b>	<b>\$727.1m - \$797.9m</b>	<b>\$514.8m - \$564.9m</b>	<b>\$212.3m - \$233.0m</b>	<b>\$122 - \$134</b>
<b>Weighted Average Estimate:</b>	<b>\$758.9m</b>	<b>\$537.3m</b>	<b>\$221.6m</b>	<b>\$127</b>

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# **FY06 Methodology & Estimates**

# FY06 Methodology

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- 1) Use FY2005 estimates as base year.
- 2) Assume sales per capita growth rate = 4.0%.  
*(Consistent with lotteries in KY, GA, FL, MO, OH, and VA over last 7 years {1997 – 2003}).*
- 3) Assume 1-year population growth rate = 1.0%.  
*(Consistent with growth rates since 2000)*
- 4) Assumed expenses were 69% of total net revenue.
- 5) Assumed net lottery proceeds were 31% of total net revenue.

# FY06 Revenue & NLP Estimates

## (December 14, 2004)

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<b>Estimate:</b>	<b>Net Revenue</b>	<b>Total Expenses (69%)</b>	<b>Net Lottery Proceeds (31%)</b>	<b>Sales Per Capita</b>
<b>Estimated Range:</b>	<b>\$719.5m - \$789.6m</b>	<b>\$496.5m - \$544.8m</b>	<b>\$223.0m - \$244.8m</b>	<b>\$120 - \$131</b>
<b>Weighted Average Estimate:</b>	<b>\$750.9m</b>	<b>\$518.1m</b>	<b>\$232.8m</b>	<b>\$125</b>



# FY06 Conclusion

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- **FY06 Net Lottery Proceeds estimates (\$232.8 million) still reasonable.**
- **FY06 Net Revenue Estimates are somewhat low.**
- **70% Expenses - 30% NLP.**
- **To achieve \$232.8 million in NLP, Net Revenue would need to be approximately \$776.0 million vs. \$750.9 million.**

# FY06 Conclusion

## (April 26, 2005)

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<b>Estimate:</b>	<b>Net Revenue</b>	<b>Total Expenses (70%)</b>	<b>Net Lottery Proceeds (30%)</b>	<b>Sales Per Capita</b>
<b>Estimated Range:</b>	<b>\$743.3m - \$816.0m</b>	<b>\$520.3m - \$571.2m</b>	<b>\$223.0m - \$244.8m</b>	<b>\$124 - \$136</b>
<b>Weighted Average Estimate:</b>	<b>\$776.0m</b>	<b>\$543.2m</b>	<b>\$232.8m</b>	<b>\$129</b>

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# Other Points of Interest

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- Net Lottery Proceeds transferred to date is \$168,319,000.
- As of March 31, 2005, over \$3.8 million was earmarked for After-School Programs.
- April 17, CASH 4 launched.
- Between July 1, 2004 and December 31, 2004, there were nine (9) Powerball drawings with jackpots exceeding \$100,000,000.
- Since January 1, 2005, there have been no Powerball drawings with jackpots exceeding \$100,000,000.
- Current Powerball jackpot is \$54,000,000.

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# Looking ahead to December 2005

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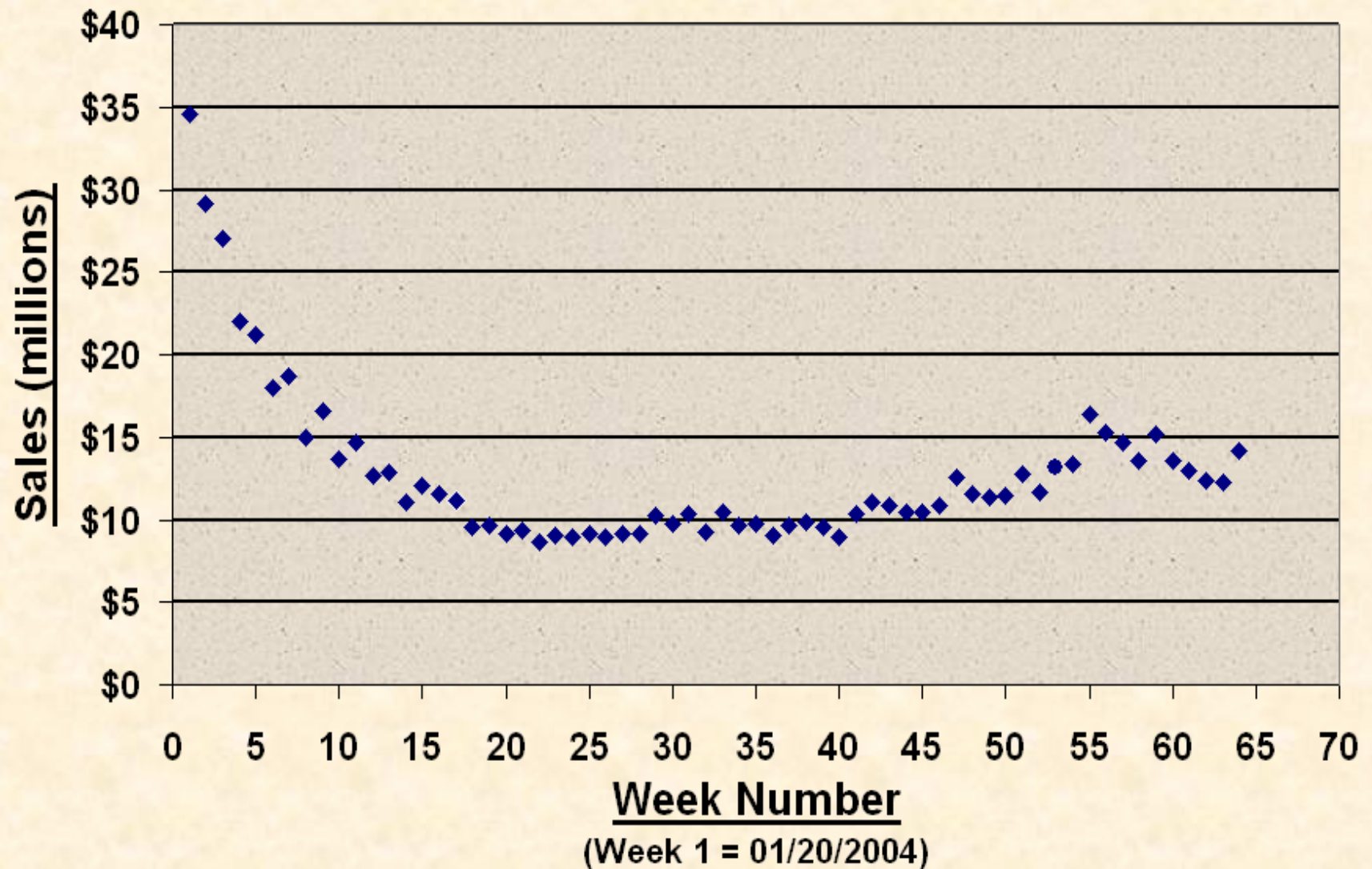
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- Compare end-of-FY05 numbers with projected estimates.
- Determine if any changes need to be made to our basic predicting methodologies.
- Revisit the Revenue-to-Expense-to-NLP Ratio.
- Revisit behavior of Powerball jackpots.
- Gasoline Prices, Inflation, and Lottery Ticket Sales.
- Larger database of information (21 months vs. 9 months)
- Include CASH 4 into our overall analysis.
- Conduct new statistical analyses.
- Develop new predicting models.
- Present updated estimates for FY06.
- Present new estimates for FY07.

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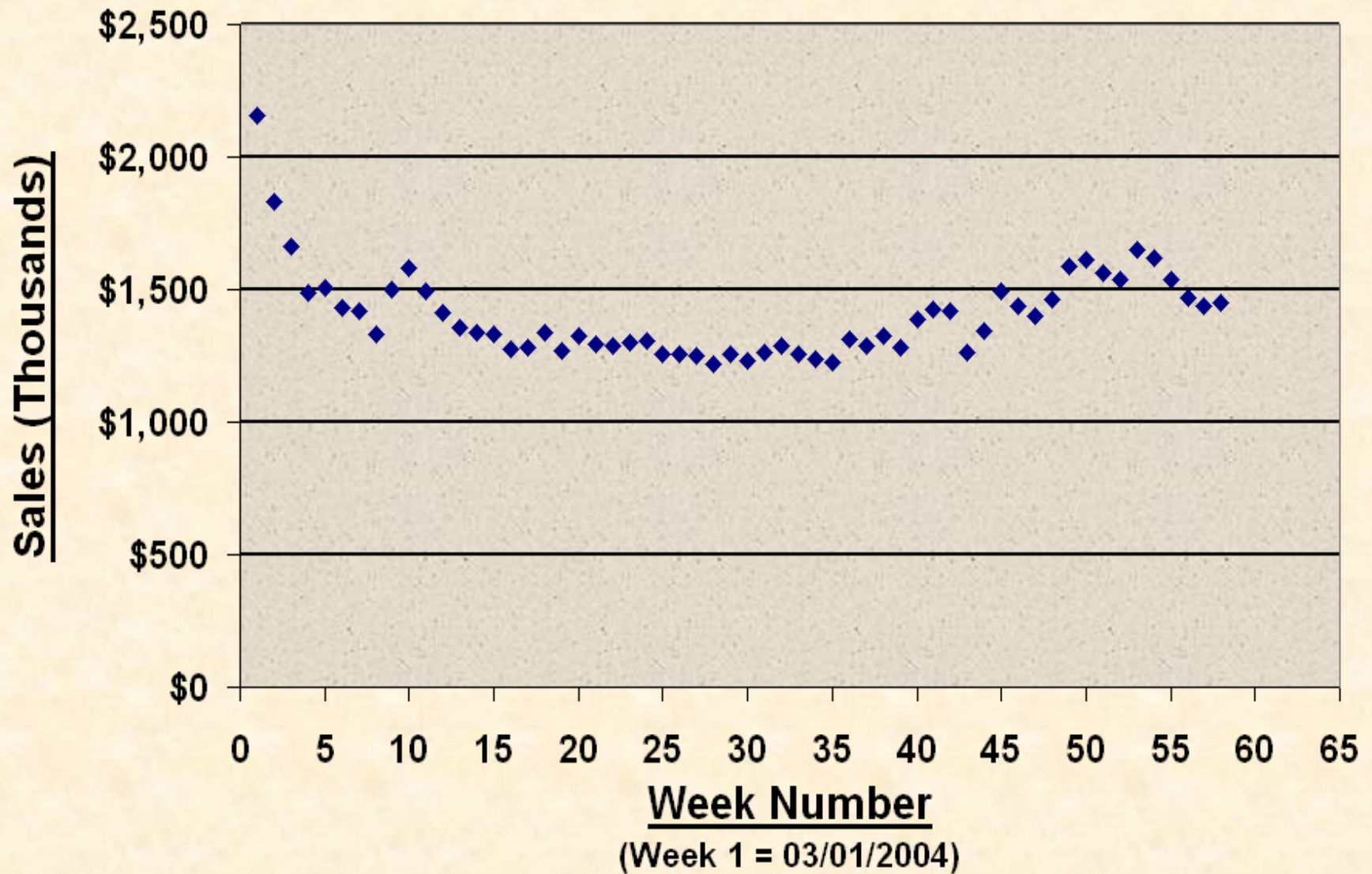
**ANY  
QUESTIONS?**

## *INSTANT GAMES (Revenue across time)*

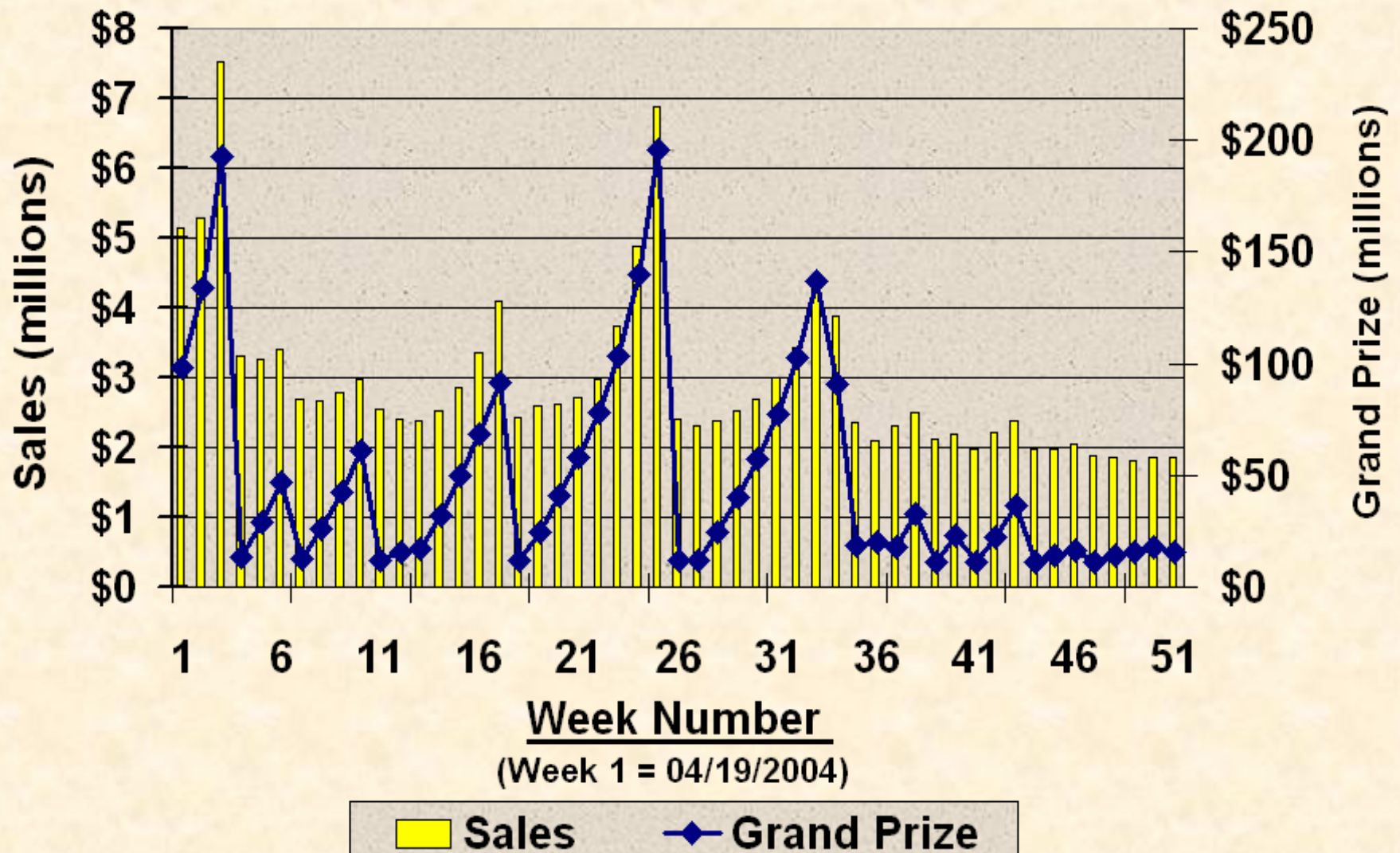




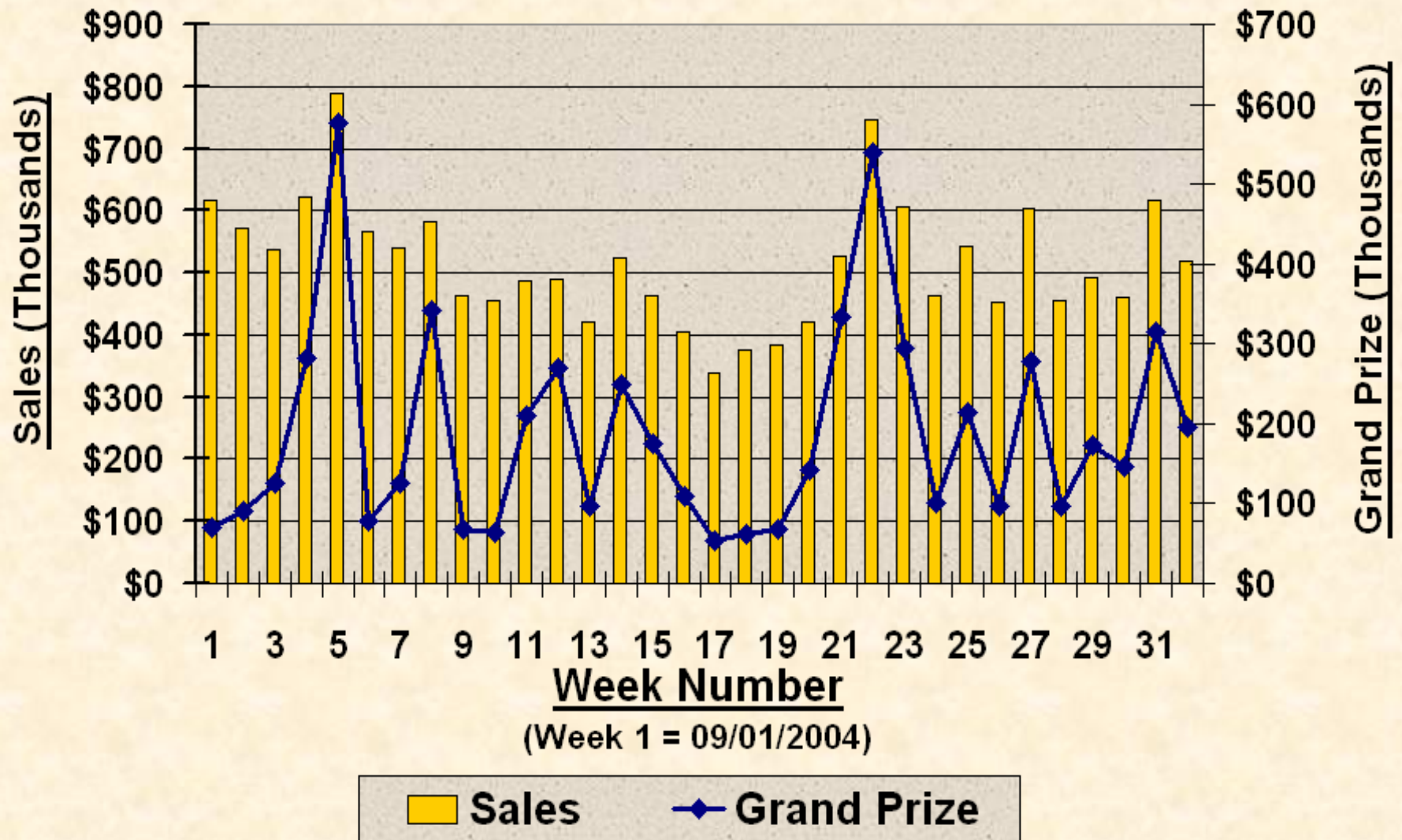
### CASH 3 (Revenue across time)



## POWERBALL: Sales-to-Grand Prize



## LOTTO 5: Sales-to-Grand Prize



## NET REVENUE (Across time)

